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This single chapter on economic trends and outlook is excerpted from the 2005 (Fall 2004 Update) Country Commercial Guide for Morocco. The full text of the report is also available on this website.

CHAPTER 2:ECONOMIC TRENDS AND OUTLOOK

Major Trends and Outlook:

Morocco boasts the world's largest phosphate reserves, a diverse agricultural sector, rich fisheries, a sizeable and growing tourist industry, a growing manufacturing sector (especially clothing and electronics), and a dynamic, telecommunications sector. There is a considerable inflow of funds from Moroccans working abroad (nearly \$4 billion in 2003). The illegal production and export of cannabis also plays a role in the Moroccan economy, particularly in the north. Most of Morocco's trade is with Europe. France alone accounts for about a quarter of Morocco's imports and a third of its exports. The U.S.-Moroccan FTA will create additional opportunities for U.S. trade and investment. FTA negotiations began in January 2003 and were concluded in March 2004.

Principal Growth Sectors:

(1) Agriculture:

Agricultural production accounts for 15 to 20% of GDP (depending on the harvest) and employs about 45% of the workforce. Morocco is a net exporter of fruits and vegetables, and a net importer of cereals, oilseeds and products, and sugar. Over 90% of the agriculture is rain-fed and thus the output is highly variable. After three consecutive years of drought (four in the Southern parts), in 2003-2004 Morocco was blessed with significant, timely, and widespread rainfall that boosted agricultural output and has positively impacted the whole economy. Although Morocco's grain production increased dramatically, imports will still be necessary later in the year to fulfill the local demand, especially for wheat. Barley and other feed imports are likely to be low this year because of more adequate pasture conditions and increased feed supply. Since most corn is used for poultry feed, less variable demand should continue to result in large amounts of corn imports.

(2) Fishing:

The fishing industry is a key sector of the Moroccan economy, employing about 400,000 people directly and indirectly, and accounting for almost one billion dollars. Despite tremendous political pressure, Morocco has not renewed its fisheries agreement with the EU, which expired on November 30, 1999. As a result, Morocco is searching for other international partners to develop its fishing industry. The relatively undercapitalized Moroccan fishing fleet has difficulty competing with the highly industrialized European fleet. Working to better manage its fish resources, the Moroccan government has been imposing periodic fishing bans on various types of fish and regions.

(3) Industry:

Industrial output rose 3.1% in 2001, and expanded by only 2.2% and 2.8% in 2002 and 2003. With the advent of the FTA however industrial output specifically in the textile sector is expected to increase significantly. For the time being, much of the clothing production is done under contract with European companies, which provide the inputs and receive the finished garments. World market conditions will determine development for Morocco's export industries, notably phosphate derivatives, processed agricultural products and clothing.

(4) *Mining:*

Morocco has the world's largest phosphate reserves. The export of phosphates and its derivatives (phosphoric acid and fertilizer) account for 16.4% of Moroccan exports. The export earnings of phosphate and phosphate derivatives reached \$1.25 billion in 2002. Morocco's other mineral resources include copper, fluorine, lead, barite, iron and anthracite. As will be noted, there are licenses in negotiation for offshore oil and gas exploration as well as some test drills in the east. Globally, Morocco is a significant producer and exporter of industrial minerals. It is also a significant regional producer of base metals, primarily for Europe.

(5) *Telecommunications:*

The Moroccan government decided to open up the entire telecommunications sector to competition by the end of 2002. Morocco has already issued licenses to provide mobile phone service and data transmission via satellite. In 2002, Morocco launched a tender for a second fixed-line license to provide competition to Maroc Telecom, but due to the global situation in the telecommunications sector, the tender received no bids. Morocco intends to re-launch the bid before the end of 2004. Vivendi Universal paid \$2.1 billion in 2001 for a 35% stake in state-controlled Maroc Telecom. The government is planning on selling an additional stake in Maroc Telecom before the end of 2004. Government Role in the Economy: The Moroccan government has gradually reduced its role in the economy over the last decade. In particular, it ceased direct credit and foreign exchange allocation, reduced trade barriers, partially restrained government spending, and embarked on a privatization program, including the telecom sector, tobacco, and concessions in energy and utilities.

(1) Monetary Policy:

Inflation remains low. Over the past decade, average annual inflation has remained below 3%. The rate of inflation was 2.8% in 2002 and 1.2% in 2003. Monetary growth has remained steady in recent years.

Morocco possesses a comfortable level of foreign exchange reserves largely as a result of the telecommunications sector and the tobacco privatizations. Foreign currency reserves stood at about \$13.5 billion in 2003, providing more than 11 months of import coverage. Broad money (M2) grew 7.5% in Q3 of 2003.

(2) Fiscal Policy:

The Moroccan government's commitment to tight fiscal policy has weakened in recent years. Thanks to one-time receipts from the partial privatization of Maroc Telecom, the 2001 overall budget deficit remained modest at 2.7% of GDP. However, with lower than expected privatization receipts in 2002, the budget deficit increased to 4.3%. Tobacco privatization again reduced the deficit to 3.8% in 2003, and the Moroccan government expects a deficit of just over 3% in 2004. Excluding privatization, the deficit continues to grow and should reach nearly 5.7% in 2004.

(3) Foreign Exchange Regulations:

The Moroccan dirham is convertible for all current transactions (as defined by the IMF's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is available through the commercial banks on presentation of appropriate documents. Foreign firms have complained about the complexity of remaining restrictions on foreign exchange. Private Moroccan residents face foreign exchange restrictions, and Moroccan banks do not issue internationally accepted credit cards. The Central Bank currently sets the exchange rate for the dirham against a basket of currencies of its principal trading partners. Changes in the rates of individual currencies reflect changes in cross rates. In May 2004, the exchange rate was approximately dirhams/USD.

(4) Privatization:

Morocco launched a privatization program in 1992 and since then has sold stakes in 65 enterprises, raising \$5.2 billion. On March 31, 1999 Parliament approved an amendment to the privatization law that designated 28 of the remaining enterprises to be sold off, mainly reflecting legal and financial problems in the others. The law also provides a legal framework for other state-owned enterprises to be privatized in the future. Among the entities to be privatized are six sugar plants, nine hotels, three banks (Banque Centrale Populaire, Banque Nationale pour le Développement Economique, Credit Immobilier et Hotelier) and the state fertilizer company, Fertima. Given weakness in the telecommunications and aviation sectors, the government decided to delay further privatization of Maroc Telecom until late 2004 and the partial privatization of the national carrier, Royal Air Maroc. An 80% stake in the state-run tobacco marketing company, Regie des Tabacs, was sold to a French-Spanish consortium, Altadis, in 2003 for \$1.53 billion.

Balance of Payments Situation:

Morocco runs a chronic merchandise trade deficit, which is generally offset by receipts from tourism, workers' remittances and foreign investment. In 2002, foreign trade figures remained relatively stable, with imports increasing by 3.8% and exports decreasing by 3.5%. Foreign investment increased to \$2.4 billion in 2003, mainly due to the privatization of the Regie des Tabacs. In 2003, tourism receipts remained constant and worker remittances increased by 7.2% to \$3.8 billion.

(1) Merchandise Trade:

The trade deficit in 2003 increased to \$5.8 billion. Citrus fruit and phosphates and its derivatives led export growth. In 2002, imports of crude oil decreased by 10.8%, wheat imports fell by 12.8%, and telecommunications equipment imports fell by 25.8%.

(2) Foreign Debt:

Morocco's foreign debt burden has declined steadily in recent years. Morocco last rescheduled its Paris Club debt in 1992. The French and Spanish governments, and since early 1999 the Italian government, have engaged in debt-equity swaps with Morocco, and Morocco is seeking the cooperation of other lenders. Morocco's current debt service ratio of approximately 16% of exports of goods and non-factor services and appears sustainable. External public debt fell to \$14.2 billion in 2001, and fell again to \$13.9 billion in 2002.

Infrastructure Situation:

Morocco is making the development of its communication and transportation networks a top priority. With many improvements already achieved and several projects underway in these two sectors, Morocco's infrastructure for the distribution of goods and services is good.

(1) Roads and Highways:

Morocco's 37,267 mi (60,000 km) road network is among the best in Africa. Most parts of the country are readily accessible by well-surfaced roads. Most agricultural and manufactured goods move by road. With the completion of a toll-highway linking Fez and Rabat, Morocco now boasts 311 miles (500 km) of expressways linking the coastal cities of Casablanca, Rabat and Assilah, and the inland cities of Fez and Meknes. However, the slow progress of the highway between Casablanca and Marrakech is a frustration to residents, tourists and distributors, and the road between Casablanca and Jorf Lasfar, passing through the resort town of El Jadida has been the scene of frequent traffic accidents involving fatalities. A new highway construction is well underway between Casablanca and Jorf Lasfar, and is expected to be completed by 2005. A Settat-Marrakech highway is expected to be complete by 2006. A new Mediterranean coastal road from Tangier to Saidia (on the Algerian border) is also under construction.

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Traffic in Casablanca continues to be clogged due to insufficient signaling, absence of pedestrian overpasses and lack of parking and traffic enforcement. The discussion of a subway or light rail system that has been underway for years appears to favor a light rail system for Casablanca. A new highway between Marrakech and Agadir (240 km) will be completed in 2009.

(2) Airports:

There are sixteen international airports in the country. The largest international airport "Mohamed V," located 22 miles (35 km) south of Casablanca, offers about fifty regular flights per day to Europe, the United States, Canada, the Middle East and several African cities. Merchandise can be transported to and from the airport by truck or by train. Rabat and Tangier also have international airports with daily flights to Europe. All airports have modern equipment to increase traffic security and safety, and to improve airspace radio coverage. Runways are being extended to receive large planes and training is provided to airport technical agents. The U.S. Trade and Development Agency signed a grant with the Ministry of Economy, Finance, Privatization and Tourism for a pilot airport privatization project.

(3) Air Transportation:

An "Open Skies" air transport agreement between the United States and Morocco entered into force in August 2002. Royal Air Maroc (RAM), Morocco's national airline, has a well-developed route structure, particularly to Europe and the Middle East/Gulf as noted above. The carrier has modernized its middle and short-haul fleet with the purchase of new generation Boeing 737s and four Airbus A321s. A tender for a 22-plane fleet renewal to replace RAM's middle/short haul and long haul aircraft was won by Boeing in November 2000. RAM entered into a code share agreement with Delta Airlines in October 2000, and Northwest Airlines has a code share arrangement with KLM. Regional Airlines and RAM, former domestic competitors, are now also partners in a code share agreement. Atlas Blue, a subsidiary of RAM, is the most recent low cost carrier serving Morocco and Europe.

(4) The Rail Network:

The rail company, the "Office National des Chemins de Fer" (ONCF), plays an important role in the Moroccan economy. It employs 13,820 people and operates on some 1,242 miles (2,000 km) of track. ONCF handles passenger service and the freight service of phosphates, fertilizers, chemical products and other minerals. Ambitious plans are scheduled to modernize and extend the network.

(5) Shipping Network:

The National Port Authority, "Office d' Exploitation des Ports" (ODEP) is the Moroccan ports' managing body. The port infrastructure handles 98% of the country's foreign trade. Morocco's twenty-seven ports handled a record 57.5 million tons in 2001, an increase of 8.8% over 2000. The port of Casablanca, the second largest in Africa, handles 37% of all goods imported and/or exported. Morocco's shipping costs are high in comparison to its Mediterranean competitors. There is frequent ferry service to and from Spain and France for tourists. The government is building a new transshipment port known as Tanger-Med, approximately 9 miles (15 km) from Tangiers in northern Morocco that will cost about \$500 million. The French Bouygues Group was chosen in June 2003 to build the basic infrastructure for the port complex for \$242 million (2.4 billion dirhams). It is scheduled for completion in 2007.

(6) Telecommunications:

The telephone system has greatly improved in the last five years. The national telecommunications network offers a range of services including cellular, paging, video conferencing, voice mail and Internet. The sector employs over 50,000 people and generates \$1.3 billion in turnover. The number of fixed lines has slowly declined over the past three years while the number of mobile phones has exploded. Since 1999, the number of mobile phones has increased from 175,000 to almost eight million. The country's

state-owned telephone company Maroc Telecom was partially privatized to Vivendi Universal in 2001. The government plans to award a second fixed license by the end of 2004.

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U.S. exporters seeking further recommendations for trade promotion opportunities in Morocco and country-specific commercial information may also wish to visit the website of the U.S. Commercial Service in Morocco at www.buyusa.gov/morocco.

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** of the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE, or go to one of the following websites: www.usatrade.gov or www.tradeinfo.doc.gov

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